



**MCI Telecommunications
Corporation**

1801 Pennsylvania Avenue, NW
Washington, DC 20006

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September 28, 1998

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**In the Matter of Petition for Rulemaking to Amend Part 32 of the Commission's
Rules, Uniform System of Accounts for Class A and Class B Telephone Companies
to Adopt the Accounting for Software Required By Statement of Position 98-1; RM-
9341**

Dear Ms. Salas:

Enclosed herewith for filing are the original and nine (9) copies of MCI WorldCom, Inc. Reply Comments regarding the above-captioned matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI WorldCom Reply Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Don Sussman

Enclosure
DHS

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**MCI Telecommunications
Corporation**

1801 Pennsylvania Avenue, NW
Washington, DC 20006

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
)	
Petition for Rulemaking to Amend Part 32)	
of the Commission's Rules, Uniform System)	RM-9341
of Accounts for Class A and Class B Telephone)	
Companies, to Adopt the Accounting for)	
Software Required By Statement of)	
Position 98-1)	

**REPLY COMMENTS OF
MCI WORLDCOM**

I. Introduction

MCI WorldCom, Inc. (MCI WorldCom) hereby submits its reply to comments on the Public Notice in the above-captioned proceeding.¹

The Commission should not waive its rule that a revenue requirement study must accompany a carrier request to adopt a change in accounting standards.² The Petition filed by BellSouth and Bell Atlantic to amend Part 32 to accommodate a change in generally accepted accounting principles

¹ Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for Class A and Class B Telephone Companies, to Adopt the Accounting for Software Required By Statement of Position 98-1, RM-9341, Public Notice, DA 98-1645, released August 13, 1998 (Notice).

² 47 C.F.R. § 32.16(a).

(GAAP) with respect to software could have a significant effect on ILEC revenue requirements.³ Contrary to the comments of the ILECs, cost information continues to play a critical role in both federal and state regulation.⁴ The effect of SOP 98-1 implementation alternatives on ILEC revenue requirements should be fully understood before the Commission rules on this matter.

The Commission should also reject the proposals of the ILECs that carriers be allowed to unilaterally determine the recovery period for operating system software. For over a decade, initial operating system software has been capitalized and depreciated over the Commission prescribed economic life of its associated hardware.

II. The Commission Should Require BellSouth and Bell Atlantic To Submit Revenue Requirement Studies

BellSouth and Bell Atlantic requested a waiver of the Commission's requirement that they provide a revenue requirement study in connection with their petition for rulemaking.⁵ Most ILECs supported this request.⁶ CBT, however, recognized that the Commission may be concerned about "this significant new addition to assets."⁷

³ American Institute of Certified Public Accountants, Statement of Position 98-1 (SOP 98-1), issued March 4, 1998.

⁴ Comments were filed by the United States Telephone Association (USTA), Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell (SBC LECs), Cincinnati Bell Telephone Company (CBT), Ameritech and GTE Service Corporation (GTE).

⁵ Petition, p. 6.

⁶ USTA, p. 4; Ameritech, p. 4; SBC LECs, p. 4; GTE, pp. 7-8.

⁷ CBT Comment, p. 5.

In its Comments, MCI opposed this waiver request.⁸ MCI explained that costs continue to matter, even under price caps, and that the revenue requirements associated with software could be substantial.⁹ MCI described the importance of cost information in detail in its recent Reply Comments in CC Docket No. 98-81.¹⁰ Under Federal and state price cap plans, accurate cost information is needed to calculate low-end adjustments and subscriber line charges (SLCs), to evaluate exogenous factors and rate increases exceeding price caps, to monitor performance and to determine the appropriateness of productivity factors. Reliable cost information is also integral to the evaluation of cost of service studies supporting resale avoidable costs, unbundled network element costs and universal service costs.

Last March, the Commission stated:

Accurate plant accounts play a vital role in monitoring financial results, calculating low-end earnings adjustments, determining productivity factors for price cap companies, defining and resolving stranded investment issues, determining the basis for jurisdictional separations and deriving inputs for forward-looking cost models for universal service, interconnection agreements, and access prices.¹¹

Recently, Chairman Kennard reaffirmed the importance of cost information in a letter to House Commerce Committee Chairman Thomas J. Bliley:

⁸ MCI Comments, p. 2.

⁹ Id.

¹⁰ 1998 Biennial Regulatory Review - Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, MCI Reply Comments, September 4, 1998, pp. 6-10.

¹¹ GTE Telephone Operating Companies, Release of Information Obtained During Joint Audit, AAD 98-26, Memorandum Opinion and Order, FCC 98-34, released March 18, 1998, para. 6.

Almost every rate decision and every policy decision the Commission makes, from tariff adjustments to wide-reaching universal service decisions, is based on cost information. Cost information plays a critical role in determining rates of return, reviewing tariff proposals, structuring access charges, and providing universal service funding and lifeline assistance.¹²

The Commission should not implement a change in Part 32 which might have significant revenue requirement effects without a careful review of these effects. The Commission should deny the waiver request of BellSouth and Bell Atlantic and require them to provide revenue requirement studies concerning the impact of SOP 98-1 implementation.

III. Operating System Software Should Be Recovered Over the Economic Life of Associated Hardware

In its Comments, MCI explained that initial operating system software has been treated as tangible by the Commission for over a decade.¹³ This software is capitalized to the same account as its associated hardware, and depreciated over the economic life of the plant as prescribed by the Commission. For example, CBT-Ohio initial operating system software associated with digital switches is recovered over 15.0 years and initial operating system software associated with general purpose computers is recovered over 5.5 years.¹⁴ Application system software, on the other hand is expensed.

¹² Telecommunications Reports, September 14, 1998, p. 14.

¹³ MCI Comments, p. 3.

¹⁴ CBT-Ohio Parameter Report, July 14, 1997

MCI recommended in its Comments that the Commission continue to differentiate between operating system software and application system software.¹⁵ Operating system software would continue to be capitalized as a tangible asset with its associated hardware and depreciated over its economic life as prescribed by the Commission. Consistent with SOP 98-1, upgrades and enhancements to operating system software which enable the software to perform tasks it was unable to perform prior to the upgrade or enhancement would also be capitalized. Application system software would be treated as an intangible asset and amortized over its economic life as determined by the carrier, but subject to audit for reasonableness.

Should the Commission decide to treat all software as intangible, MCI recommended that the Commission require that operating system software be amortized over the economic life of its associated hardware as prescribed by the Commission.¹⁶ This treatment would result in no change in the revenue requirements associated with initial operating system software.

The USTA and ILECs propose that all software be treated as intangible and amortized over periods selected by the carriers.¹⁷ The ILECs do not differentiate between operating system and application system software. CBT, however, does propose that "Network Based" software be amortized over 1-3 years and "General and Administrative" software over 2 to 5 years.¹⁸

The Commission should reject these ILEC proposals. Operating system software is necessary

¹⁵ MCI Comments, pp. 3-5.

¹⁶ Id., pp. 5-7.

¹⁷ USTA Comments, pp. 2-3; Ameritech, pp. 2-3; SBC LECs, pp. 1-2; GTE, pp. 3-7; CBT, pp. 3-6.

¹⁸ CBT Comments, pp. 4-6.

for the operation of a computer or switch regardless of the specific task being performed. Operating system software is as integral to the operation of a computer or switch as its on/off button, and is utilized from the day the hardware is placed in service to the day it is retired. Software upgrades and enhancements which are made during the life of the hardware which do not increase its capabilities are expensed as incurred, of course, just as the maintenance of hardware is expensed. There is absolutely no logical reason for the recovery of operating system software over a period different from the economic life of its associated hardware.

From a regulatory perspective, moreover, the change from current Uniform System of Accounts accounting to the proposals of the ILECs would greatly increase current revenue requirements. The effect on expenses of changing from recovery of initial operating system software over the life of associated hardware to arbitrarily short carrier lives was illustrated in MCI's Comments.¹⁹ For initial operating system software associated with CBT-Ohio's digital switches, for example, the change would be from 15 years to 1-3 years, resulting in expenses from 5 to 15 times greater.

¹⁹ MCI Comments, p. 6 and Attachment 2.

IV. Conclusion

Wherefore, the Commission should reject the Petition for Rulemaking filed by Bell Atlantic and BellSouth on August 3, 1998, for failure to include a revenue requirement study, and revise Part 32 as recommended herein.

Respectfully submitted,
MCI WORLDCOM, INC.



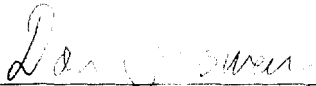

Don Sussman
1801 Pennsylvania Ave., NW
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September 28, 1998

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on September 28, 1998.

Don Sussman
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CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Reply Comments of MCI WorldCom, Inc. in the Matter of Petition for Rulemaking were sent via first class mail, postage paid, to the following on this 28th day of September, 1998.

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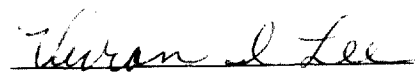
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